

**INVESTMENT COMMITTEE, WASHOE COUNTY, NEVADA
MINUTES OF MEETING**

THURSDAY: August 9, 2022 2:30 p.m.

PRESENT: Vaughn Hartung, Chair
Alexis Hill, Commissioner (Via Zoom)
Linda Jacobs, Treasurer
Cathy Hill, Comptroller

STAFF: Michael Large, Legal Counsel, Washoe County District Attorney's Office
Marissa Kuckhoff, Administrative Assistant I, Washoe County Treasurer's Office

FHN: Rick Phillips, President & Chief Investment Officer, FHN Financial Main Street Advisors

OTHER: Robert Andrews, Accounting Manager, Washoe County Comptroller's Department
Debra Crowley, Senior Financial Analyst, Truckee River Flood Management (via Zoom)
George Robison, Executive Director, Truckee River Flood Management (via Zoom)
Justin Taylor, Personal Property Auditor-Appraiser, Washoe County Assessor's Office

The Washoe County Investment Committee met in the Caucus Room of the Washoe County Administration Complex, located at 1001 East Ninth St., Reno, Nevada. Chair Vaughn Hartung called the meeting to order, and Administrative Secretary Marissa Kuckhoff called the roll. It was established that quorum was present, and the Committee conducted the following business.

AGENDA ITEM 2 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Chair Hartung called for any public comment and there was none.

AGENDA ITEM 3 – MINUTES [FOR POSSIBLE ACTION]

Agenda Subject: "Possible approval of minutes for the Washoe County Investment Committee's June 2, 2022, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed."

Chair Hartung introduced this agenda item, called for any corrections, and there were none. Commissioner Alexis Hill moved to approve the minutes, and Comptroller Cathy Hill seconded. The motion passed unanimously.

AGENDA ITEM 4 – RECOMMENDED UPDATE TO WASHOE COUNTY INVESTMENT MANAGEMENT PLAN [FOR POSSIBLE ACTION]

Agenda Subject: "Discussion and possible update to Washoe County Investment Management Plan, including but not limited to: Add 'Comprehensive' to County's Annual Financial Report, Combined Groups A and B to one overall portfolio, Update to benchmark based on combining Groups A and B, Add NRS to Collateralization, Update 'Comptroller's office' to 'Comptroller's department'."

Treasurer Linda Jacobs reviewed the following proposed changes to the Washoe County Investment Management Plan. On page 2, adding 'comprehensive' to County's Annual Financial Report. On page 10, replacing 'will be' with 'were' as the combining of Group A and Group B was completed July 1, and adding the NRS to Collateralization. On pages 10-11, update to the benchmark (90/10) based on the combining of the Groups. And on page 15, updating Comptroller's office to Comptroller's department. Chair Hartung called for any questions and there were none. There was no public comment. Commissioner Hill moved to adopt the changes and Comptroller Hill seconded the motion. It passed unanimously.

**AGENDA ITEM 5 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY’S INVESTMENT PORTFOLIO
[NON-ACTION ITEM]**

Agenda Subject: “The April-June 2022 quarterly report will be provided, and Committee Members may discuss the report. Presentation by FHN Financial Main Street Advisors on the following: Washoe County’s Investment Portfolio Strategy discussion and Economic Update.”

Chair Hartung introduced this agenda item and Rick Phillips with FHN presented the quarterly report.

ECONOMIC AND MARKET UPDATE

Recession vs. Inflation

The last few years have had several unprecedented events including a material shut down to the national and global economies, and a huge influx of stimulus money into the economy. Consequences of both of those events are still being felt. The Federal Reserve (Fed) has been aggressively raising interest rates. First quarter Gross Domestic Product (GDP) shrunk 1.6% in the first calendar year quarter and by .9% in the second calendar year quarter. It is anticipated that short term interest rates will be raised. Chair Hartung asked if it was two quarters of negative growth that was considered a recession. Phillips answered that many consider that, and there is a group called the National Bureau of Economic Research (NBER) that are the official daters of recession. NBER hasn’t spoken yet, but Phillips emphasized that it could take a year or more for them to call a recession.

Inflation vs. Yields: One of These Things is Not Like the Other

A graph was shown tracking the Consumer Price Index (CPI) and the Market Yield on U.S. Treasury Securities from 1965 through present, and the correlation with U.S. Recessions. Long-Term Factors: Debt, Demographics, Globalization, Technology. Short-term Factor: More D.C. Gridlock

Employment Is Not Showing a Recession

A graph was shown depicting the number of jobs created in the U.S. by month for 2022 with February holding the highest at 714,000 jobs. Another graph showed the average weekly unemployment claims. Phillips explained that this data is collected from business surveys and household survey, and can, as they are now, have a big disparity. Chair Hartung commented that jobs created doesn’t necessarily mean jobs filled.

Past Employment Cycles are a Mixed Bag From An Indicator Perspective

A graph was shown charting employment cycles from the 1990s through 2010 and showed that growth can change quickly to a recession.

Will Wages Continue to Push Inflation Higher? Real Wages Still Negative

Phillips explained that job demand has pushed wages higher and showed information representing Job Stayer Wage Growth vs Job Switcher Wage Growth, and Overall Wage Growth. The Job Switcher group showed the highest wage growth in 2022.

Futures Market Looking for Powell to Pivot Next Year and Cut Rates

The Fed Funds rate was tracked from January 2022 and showed four rate hikes with additional rate hikes expected through 2023. Three major moves in a row are expected by the Fed, which hasn’t been seen in 40 years, followed by cuts.

Fed’s Terminal Rate Has Been Above CPI Peak...Probably Not This Time

Phillips showed the Fed Funds rate and the Consumer Price Index (CPI) from 1960 through present day and explained that once the Fed stops hiking, only seven months later do they cut interest rates due to recession.

Fed is Creating “Demand Destruction” In the Housing Market

Phillips explained that the Fed cannot alleviate issues with supply chains, but they can create demand destruction, particularly in the housing market. The Mortgage Refinance Index is the lowest in twenty years. New and existing home sales are dropping due to mortgage rates and prices going up. Chair Hartung asked if FHN looks at what developers have in inventory and Phillips replied that they do.

YOY% Homes Sold Declining Dramatically

For the Reno, Nevada area, the June 2022 numbers showed a -33.8% decline year over year of existing homes sold. Other areas like Boise City, ID are also showing decline.

Consumers are OK...Not Great, But Not Bad Either: Services vs. Goods

A graph showing real vs. nominal inflation from 2017 to June 2022 was shown and Phillips explained that consumers are behind because gas and food prices are so high. Amazon and Walmart sales have slowed.

Commodities vs. 10yr Treasury Yield

Phillips explained that after the rise of the Bloomberg Commodity Index from 2020-2022, they are starting to see a shift down in commodities. Chair Hartung asked if that was because of demand or supply. Phillips answered that while it had been going up as more people got back out into the economy, Russia/Ukraine was a big factor.

Interest Rates the Past Year

A graph was shown charting interest rates from July 2021 through July 2022. When the yield curve inverts, like it did last month, it can indicate a recession about a year out. All in all, in the long end, Phillips expects interest rates to remain where they are currently.

Portfolio Metrics and Information

Portfolio Summary

The three main objectives of the portfolio are safety, liquidity, and income. Phillips reviewed charts in the investment report representing the Sector Allocation, Maturity Distribution, Credit Quality, Account Summary, Month-End Portfolio Book Yield, and Top Issuers.

Investment Policy Compliance

As of June 30, 2022, the portfolio was in compliance with the investment policy and the total Book Value was \$821,497,175.02 with a Weighted Average Maturity of 2.13.

Historical Book Values

The growth of the Book Values was charted from July 2016 through May 2022 and it showed that the portfolio increased substantially from \$470.3 million to \$727.1 million. The \$84 million of ARPA funds in the State's LGIP is not included in this value.

Historical Book Values Per Fiscal Year

The growth of the portfolio was presented in fiscal year format.

Historical Weighted Average Maturity

The portfolio's weighted average maturity for June 2022 was 2.13.

Next Twelve Months Cash Flow

Maturities was graphed from July 2022 through June 2023 with the highest month being July 2022 at \$158.6 million.

Yield at Cost Per 6-Month Maturity Levels

The Maturity's yield at cost and percentage of portfolio were reviewed, with the largest allocation in the 0-to-.5-year range at 23.44%. Cash flow planning can allow these to be extended out to capture more earnings. Phillips reminded the group that a year ago the 2-Year was .2% and now it is 3.2%, and the 5-Year was .5% and now it's about 3%.

Historical Sector Allocation

The sector allocation for the portfolio at quarter end was 28.2 % in Treasuries, 24.3 % in Agencies, 16.3% in LGIP, 13.8 % in Corporates, 6.7 % in Certificates of Deposit, 4.7% in Commercial Paper, .4.5% is Asset Backed Securities, 1.6% in Supras, 0% in Money Market Funds, and 0% in Mortgage-Backed Securities.

Top 40 Issuer Allocation

The top 40 issuer allocations were provided for the quarter.

Historical Earning & Book Return Performance

The fiscal year-to-date earnings and the fiscal year-to-date book return were shown by month.

Historical Yield At Cost vs Benchmark

The Investment Management Plan indicates that the portfolio should earn a market rate of return over time.

Investment Activity

The number of positions, purchases, and redemptions per month was shown from July 2021 through June 2022.

AGENDA ITEM 6 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]

Agenda Subject: "This item is limited to announcements or issues proposed for future agendas and/or workshops."

Chair Hartung called for any committee member comments and there were none.

AGENDA ITEM 7 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Chair Hartung called for public comment and there was none.

AGENDA ITEM 8 – ADJOURNMENT [NON-ACTION ITEM]

Chair Hartung adjourned the meeting.

Attachments to Minutes



Agenda Item 3 -
Minutes of 6-2 meet



Agenda Item 4 -
Proposed updates to



Agenda Item 5 -
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